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SUBJECT: RE-ELECTION WOES FOR SLOVENIA'S CENTRAL BANK

GOVERNOR: DRNOVSEK AND JANSA FACE OFF

REF: A. LJUBLJANA 0051

B. LJUBLJANA 0002

¶1. (SBU) Summary. In a close vote February 2, Mitja Gaspari failed to get the 46 votes necessary for re-election as the governor of the Bank of Slovenia (BOS). On February 9, President Drnovsek put forward BOS Vice-Governor Andrej Rant as his second nominee. The ostensible cause of Gaspari's downfall was the charge that he had sent analytical documents to the European Central Bank (ECB) painting an unfairly bleak picture of the Government of Slovenia's (GOS) fiscal policy. Subsequently, it was determined that the documents had, in fact, not been sent to the ECB at all but were, rather, internal documents pondering possible scenarios. The concerns surrounding the leaked documents seems to have hurt him politically, more because it gave his detractors something to use against him than any inappropriate behavior on his part. Now there is a stalemate between Drnovsek and Jansa's Slovenian Democratic party (SDS). Drnovsek has stated that he will not submit a new candidate if Rant is not confirmed, and the SDS is not expected to support Rant's candidacy. If left unresolved by March 31, it is unclear whether the GOS will have official representation in the ECB after Gaspari's term ends. End Summary.

Background

¶2. (U) Before the uproar over the "controversial" documents, Mitja Gaspari had an exemplary career in the Slovenian Central Bank, with Slovenia's entry into the euro zone as his crowning achievement. Previously, at the time of the dissolution of Yugoslavia, he went to work at the World Bank in Washington D.C. as a senior financial economist. In June 1992, Gaspari returned to Slovenia when he was appointed Minister of Finance by then Prime Minister, Janez Drnovsek. Gaspari was Finance Minister until Drnovsek nominated him -- and parliament confirmed him -- to be the new Central Bank Governor in 2001. Drnovsek, now president of Slovenia, recently nominated Gaspari to a second term, with his current 6-year term ending in March 2007.

An Unexpected Bump on Euro Trail

¶3. (U) Slovenia's entry into the euro zone was historic (Ref B). The only one of the new EU accession countries to join, Slovenia showed discipline and resolve in its drive to adopt the euro. From beginning to end, ECB officials lauded the work of Gaspari and the Bank of Slovenia in not only meeting, but exceeding the Maastricht criteria. ECB Governor Jean-Claude Trichet has even said that Gaspari was "one of the most important people in Slovenia." On January 15, a gala event heralded in the euro as Slovenia's official currency

and paid tribute to the tolar, Slovenia's official currency since 1992. Even as Gaspari's and the Government of Slovenia's achievements were being celebrated, controversy was brewing over Gaspari's alleged defamatory report to the ECB. When the accusations became public, Gaspari and Trichet both categorically denied that documents painting a dire picture of Slovenian public finances were sent to the ECB.

Lies...And Statistics

¶4. (U) The disagreement centers around assumptions about the Government's fiscal health. The BOS's divergent unofficial internal assessment predicts that Slovenia could have budget deficits of up to 2% in 2007 and 2008, which could spiral up to 8-11% by 2011. For its part, the Ministry of Finance (MOF) projects deficits of 1.5% in 2007-8. The BOS says its numbers are based on conservative estimates with minimal government intervention, and, also include worst-case scenarios. Finance Minister Andrej Bajuk argued that the assumptions underlying the BOS report amounted to irresponsible conjecturing and simplistic thinking, whereas the Finance Ministry's report assumed a scenario by which the GOS could raise the value-added tax (VAT) and use other tools to contain budget deficits. The BOS countered that its projections were based on current realities rather than possible future actions.

Gaspari Vindicated But Still Under Fire

¶5. (U) After heated exchanges between the Ministry of Finance and the Bank of Slovenia, it became clear that the BOS had never sent the documents in question. In reality, the documents were internal projections, which included projections for worst-case scenarios. With the main criticism

of Gaspari a non-starter, MPs opposed to Gaspari's nomination then attacked his past record as Finance Minister as well as his leadership of the BOS. Gaspari's supporters, on the other hand, claimed that the accusations were a smokescreen and the real agenda was an attempt to diminish the independence of the BOS and install a governor that is politically acceptable to Jansa.

Next Steps

¶6. (U) On learning that Gaspari did not receive the necessary votes, Drnovsek decried the parliament's decision as undermining independent institutions in Slovenia. Drnovsek stated that he would choose someone like Gaspari again: "someone with impeccable professional credentials as well as political independence." Drnovsek met with PM Jansa on February 7 and suggested Joze Mencinger, a vocal critic of the Jansa government, as his potential nominee. Jansa made it clear that he was not an acceptable option and Drnovsek withdrew his name. Then, on February 9, Drnovsek surprised everyone by submitting to parliament BOS Vice-Governor Andrej Rant, a 30-year central bank veteran, as his new nominee. Rant, as one of Gaspari's deputies, is known as a strong Gaspari supporter and by association is considered a Drnovsek "insider" who is not expected to garner the necessary votes in parliament. Business daily Finance described Rant as knowledgeable but "anemic," -- lacking charisma and leadership skills. Prior to Rant's nomination, pundits had been speculating that the front-runners were Egon Zakrasek, an economist working at the US Federal Reserve, Boris Pleskovic, a long time economist at the World Bank in D.C., or Marko Kranjec, renowned economist and former finance minister. On February 12, Drnovsek stated that he would not submit any more names if Rant is not confirmed. In response, Joze Tanko, deputy of Jansa's Slovenian Democratic party (SDS), stated that SDS would not support Rant. Drnovsek said this would lead to an institutional crisis, but expert opinions vary. Slovenian law states that in the absence of a governor, one of the central bank deputies would assume the role of acting-governor, though there is no law explicitly regulating participation in the ECB. Also, Slovenian

newspaper Delo noted that a parliamentary majority could remove Drnovsek's right to nominate the candidate.

¶7. (SBU) Comment. The public fracas between the Bank of Slovenia and the Ministry of Finance is being fueled by what has now, over the last year, become a more contentious relationship between President Drnovsek and PM Jansa. Although many people in the government and the press have been critical of Gaspari's treatment by Jansa's camp, they have been equally critical of Drnovsek's unilateral decision-making on key appointments and nominees. Social Democrats party (SD) leader and presidential contender, Borut Pahor, criticized Drnovsek for his refusal to work with lawmakers to find a suitable central bank governor nominee. The back and forth on the nominations of Gaspari, Mencinger and then Rant is a classic example of the political wrangling between Drnovsek and Jansa. Local media speculated that Drnovsek's strategy was to suggest Mencinger, someone so unacceptable to Jansa, so that Rant would seem acceptable by comparison. The economic implications of this struggle are not the focus of the media or the public. Instead, this dispute is a battle of wills between Jansa and Drnovsek to install "their" man at the helm of the central bank. End Comment.

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